UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________to _________

Commission file number 001-34170

MicroVision, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**91-1600822**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

6244 185th Avenue NE, Suite 100
Redmond, Washington 98052
(Address of Principal Executive Offices, including Zip Code)

(425) 936-6847
(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value per share	MVIS	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☒ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The number of shares of the registrant's common stock outstanding as of October 26, 2020 was 146,405,910.

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PART I.

ITEM 1. FINANCIAL STATEMENTS

MicroVision, Inc.
Condensed Balance Sheets
(In thousands, except per share data)
(Unaudited)

	September 30, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 5,027	$ 5,837
Accounts receivable, net of allowances of $0 and $0, respectively	-	1,079
Inventory	-	192
Other current assets	748	729
Total current assets	5,775	7,837
Property and equipment, net	1,515	1,849
Operating lease right-of-use asset	1,040	1,308
Restricted cash	435	435
Intangible assets, net	178	221
Other assets	18	186
Total assets	$ 8,961	$ 11,836
Liabilities and shareholders' equity (deficit)		
Current liabilities		
Accounts payable	$ 1,513	$ 1,871
Accrued liabilities	295	2,045
Deferred revenue	-	21
Contract liabilities	8,160	9,755
Other current liabilities	-	83
Current portion of long-term debt	961	-
Current portion of operating lease liability	671	656
Current portion of finance lease obligations	15	25
Total current liabilities	11,615	14,456
Long-term debt, net of current portion	617	-
Operating lease liability, net of current portion	922	1,348
Finance lease obligations, net of current portion	-	9
Total liabilities	13,154	15,813
Commitments and contingencies (Note 10)		
Shareholders' equity (deficit)		
Preferred stock, par value $0.001; 25,000 shares authorized; zero and zero shares issued and outstanding	-	-
Common stock, par value $0.001; 150,000 shares authorized; 143,906 and 125,803 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	144	126
Additional paid-in capital	578,326	568,496
Accumulated deficit	(582,663)	(572,599)
Total shareholders' equity (deficit)	(4,193)	(3,977)
Total liabilities and shareholders' equity (deficit)	$ 8,961	$ 11,836

The accompanying notes are an integral part of these financial statements.

MicroVision, Inc.
Condensed Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Product revenue	$ 100	$ 999	$ 1,347	$ 1,198
License and royalty revenue	539	17	1,323	17
Contract revenue	-	174	25	3,066
Total revenue	639	1,190	2,695	4,281
Cost of product revenue	-	2,039	1,394	3,352
Cost of contract revenue	-	33	4	1,786
Total cost of revenue	-	2,072	1,398	5,138
Gross profit	639	(882)	1,297	(857)
Research and development expense	1,972	3,566	7,262	15,484
Sales, marketing, general and administrative expense	1,485	1,697	4,536	6,851
Gain on disposal of fixed assets	-	-	(450)	-
Total operating expenses	3,457	5,263	11,348	22,335
Loss from operations	(2,818)	(6,145)	(10,051)	(23,192)
Other expenses, net	(8)	4	(13)	(7)
Net loss	$ (2,826)	$ (6,141)	$ (10,064)	$ (23,199)
Net loss per share - basic and diluted	$ (0.02)	$ (0.05)	$ (0.07)	$ (0.21)
Weighted-average shares outstanding - basic and diluted	143,685	114,874	137,027	107,953

The accompanying notes are an integral part of these financial statements.

MicroVision, Inc.
Condensed Statements of Shareholders' Equity (Deficit)
(In thousands)
(Unaudited)

	Common Stock				Additional paid-in capital		Accumulated deficit		Total shareholders' equity (deficit)
	Shares		Par value						
Balance at June 30, 2020	143,433	$	143	$	577,172	$	(579,837)	$	(2,522)
Share-based compensation expense	-		-		449		-		449
Exercise of options	98		-		104		-		104
Sales of common stock	375		1		601		-		602
Net loss	-		-		-		(2,826)		(2,826)
Balance at September 30, 2020	143,906	$	144	$	578,326	$	(582,663)	$	(4,193)
Balance at January 1, 2020	125,803	$	126	$	568,496	$	(572,599)	$	(3,977)
Share-based compensation expense	201		-		793		-		793
Exercise of options	102		-		107		-		107
Sales of common stock	17,800		18		8,930		-		8,948
Net loss	-		-		-		(10,064)		(10,064)
Balance at September 30, 2020	143,906	$	144	$	578,326	$	(582,663)	$	(4,193)
Balance at June 30, 2019	110,223	$	110	$	558,334	$	(563,174)	$	(4,730)
Share-based compensation expense	-		-		258		-		258
Sales of common stock	9,194		9		5,635		-		5,644
Net loss	-		-		-		(6,141)		(6,141)
Balance at September 30, 2019	119,417	$	119	$	564,227	$	(569,315)	$	(4,969)
Balance at January 1, 2019	100,105	$	100	$	550,133	$	(546,116)	$	4,117
Share-based compensation expense	250		-		877		-		877
Sales of common stock	19,062		19		13,217		-		13,236
Net loss	-		-		-		(23,199)		(23,199)
Balance at September 30, 2019	119,417	$	119	$	564,227	$	(569,315)	$	(4,969)

The accompanying notes are an integral part of these financial statements.

MicroVision, Inc.
Condensed Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash flows from operating activities		
Net loss	$ (10,064)	$ (23,199)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	726	1,382
Impairment of intangible assets	-	97
Impairment of property and equipment	-	204
Gain on disposal of property and equipment	(450)	-
Share-based compensation expense	839	877
Non-cash interest expense	7	-
Inventory write-downs	168	2,203
Change in:		
Accounts receivable, net	1,079	(29)
Costs and estimated earnings in excess of billings on uncompleted contracts	-	987
Inventory	24	(1,335)
Other current and non-current assets	104	2,021
Accounts payable	(340)	(982)
Accrued liabilities	(1,750)	(1,360)
Deferred revenue	(21)	28
Contract liabilities and other current liabilities	(1,678)	(146)
Operating lease liabilities	(491)	(481)
Net cash used in operating activities	(11,847)	(19,733)
Cash flows from investing activities		
Proceeds on sale of property and equipment	525	-
Purchases of property and equipment	(94)	(671)
Net cash provided by (used in) investing activities	431	(671)
Cash flows from financing activities		
Principal payments under finance leases	(19)	(15)
Proceeds from long-term debt	1,571	-
Net proceeds from issuance of common stock	9,054	13,295
Net cash provided by financing activities	10,606	13,280
Change in cash, cash equivalents, and restricted cash	(810)	(7,124)
Cash, cash equivalents, and restricted cash at beginning of period	6,272	14,201
Cash, cash equivalents, and restricted cash at end of period	$ 5,462	$ 7,077
Supplemental schedule of non-cash investing and financing activities		
Non-cash additions to property and equipment	$ 19	$ 48
Issuance of common stock for commitment fee	-	258
Issuance of common stock for commitment fee	$	$ -

The following table provides a reconciliation of the cash, cash equivalents, and restricted cash balances as of September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Cash and cash equivalents	$ 5,027	$ 5,837
Restricted cash	435	435
Cash, cash equivalents and restricted cash	$ 5,462	$ 6,272

The accompanying notes are an integral part of these financial statements.

MicroVision, Inc.
Notes to Condensed Financial Statements
(Unaudited)

1. MANAGEMENT'S STATEMENT

The Condensed Balance Sheets as of September 30, 2020, the Condensed Statements of Operations and the Condensed Statements of Shareholders' Equity (Deficit) for the three and nine months ended September 30, 2020 and 2019, and the Condensed Statements of Cash Flows for the nine months ended September 30, 2020 and 2019, have been prepared by MicroVision, Inc. ("we" or "our") and have not been audited. In the opinion of management, all adjustments necessary to state fairly the financial position at September 30, 2020 and the results of operations and cash flows for all periods presented have been made and consist of normal recurring adjustments. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules of the Securities and Exchange Commission (SEC). The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. You should read these condensed financial statements in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

We have incurred significant losses since inception. In February 2020, we were informed by an original equipment manufacturer (OEM) that products using our interactive display module would not be launched in 2020 as we planned. Since we do not have orders from an OEM for 2020 delivery, we reduced our headcount by approximately 60% and focused our attention on strategic alternatives, including a potential sale or merger of the Company, sale of part of the Company, strategic minority investment, as well as licensing and other transactions.

We have funded our operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, product sales and licensing activities. At September 30, 2020, we had $5.0 million in cash and cash equivalents.

Based on our current operating plan that includes anticipated future proceeds from the sale of shares under our existing Common Stock Purchase Agreement with Lincoln Park Capital Fund, LLC ("Lincoln Park"), we anticipate that we have sufficient cash and cash equivalents to fund our operations through the first quarter of 2021. While we continue to pursue strategic alternatives, we may require additional capital to fund our operating plan past that time. We plan to seek additional capital through the issuance of equity or debt securities, and/or licensing activities. There can be no assurance that additional capital will be available to us or, if available, will be available on terms acceptable to us or on a timely basis. If adequate capital resources are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include further reductions in our production capacities, research and development projects, staff, operating costs, and capital expenditures.

While we continue to pursue strategic alternatives, we plan to focus on developing our automotive LiDAR module. This would involve introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the commercial success of our laser beam scanning (LBS) modules, the rate at which original equipment manufacturers (OEMs) or original design manufacturers (ODMs) introduce products incorporating our PicoP® scanning technology and the market acceptance and competitive position of such products. If revenues are less than we anticipate, if the mix of revenues and the associated margins vary from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to fund our operations. In addition, our operating plan provides for the development of strategic relationships with suppliers of components and systems and equipment manufacturers that may require additional investments by us.

These factors raise substantial doubt regarding our ability to continue as a going concern. Our unaudited financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might be necessary should we be unable to continue as a going concern.

2. NET LOSS PER SHARE

Basic net loss per share is calculated using the weighted-average number of common shares outstanding during the period. Net loss per share, assuming dilution, is calculated using the weighted-average number of common shares outstanding and the dilutive effect of all potentially dilutive securities, including common stock equivalents and convertible securities. Net loss per share, assuming dilution, is equal to basic net loss per share because the effect of dilutive securities outstanding during the period, including options and warrants computed using the treasury stock method, is anti-dilutive.

The components of basic and diluted net loss per share were as follows (in thousands, except loss per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net loss available for common shareholders - basic and diluted	$ (2,826)	$ (6,141)	$ (10,064)	$ (23,199)
Denominator:				
Weighted-average common shares outstanding - basic and diluted	143,685	114,874	137,027	107,953
Net loss per share - basic and diluted	$ (0.02)	$ (0.05)	$ (0.07)	$ (0.21)

For the three and nine months ended September 30, 2020 and 2019, we excluded the following securities from net loss per share as the effect of including them would have been anti-dilutive: outstanding options exercisable into a total of 3,906,000 and 5,206,000 shares of common stock, respectively, and 2,001,000 and 1,247,000 nonvested restricted and performance stock units, respectively.

3. LONG-TERM CONTRACTS

In April 2017, we signed a contract with a major technology company to develop an LBS display system. Under the agreement, we received an upfront payment of $10.0 million in 2017 and, as of December 31, 2019, had also received $15.0 million, net of early payment discounts, representing all payment due for development work. The original contract was for $14.0 million in fees for development work, but we and our customer agreed to add $1.1 million in additional work to total $15.1 million. After applying early payment discounts, we recognized revenue of $15.0 million in development fees over time based on the proportion of total cost expended (under Topic 606, the "input method") to the total cost expected to complete the contract performance obligation. Beginning in the fourth quarter of 2019, the $10.0 million upfront payment was being recognized as revenue at the point in time that component sales were sold to the major technology customer. In March 2020, we entered into an agreement for our customer to take over production of the components we had been producing for them. The agreement provides that, beginning in March 2020, we will earn a royalty on each component shipped that is approximately equal to the gross profit we earned on each component we had previously produced. Under the new arrangement, the royalties earned will be applied against the remaining $8.2 million prepayment that we had previously received from the customer until the prepayment is exhausted.

4. LONG-TERM DEBT

In April 2020, we received funds in the amount of $1,570,881 pursuant to a loan under the Paycheck Protection Program of the 2020 CARES Act ("PPP") administered by the Small Business Administration. The loan has an interest rate of 0.98% and a term of 24 months. No payments are due for the first 6 months, although interest accrues during that period. Thereafter, the loan is repayable in monthly installments over the next 18 months to retire the loan plus accrued interest. Funds from the loan may only be used for certain purposes, including payroll, benefits, rent and utilities, and a portion of the loan used to pay certain costs may be forgivable, all as provided by the terms of the PPP. The loan is evidenced by a promissory note, which contains customary events of default relating to, among other things, payment defaults and breaches of representations and warranties. We may prepay the loan at any time prior to maturity with no prepayment penalties.

As of September 30, 2020, all of the funds received under the PPP had been used for qualified purposes. We intend to apply for partial forgiveness of the loan under PPP guidelines. Based on the terms of the PPP, we estimate the amount of the loan that will be forgiven will be approximately $690,000, subject to approval by our lender in accordance with PPP guidelines.

5. REVENUE RECOGNITION

The following is a description of principal activities from which we generate revenue. Revenues are recognized when control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

We evaluate contracts based on the 5-step model as stated in Topic 606 as follows: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price, and (v) recognize revenue when (or as) performance obligations are satisfied.

A contract contains a promise (or promises) to transfer goods or services to a customer. A performance obligation is a promise (or a group of promises) that is distinct, as defined in the revenue standard.

The transaction price is the amount of consideration an entity expects to be entitled to from a customer in exchange for providing the goods or services. A number of factors should be considered to determine the transaction price, including whether there is variable consideration, a significant financing component, noncash consideration, or amounts payable to the customer. The determination of variable consideration will require a significant amount of judgment. In estimating the transaction price we will use either the expected value method or the most likely amount method.

The transaction price is allocated to the separate performance obligations in the contract based on relative standalone selling prices. Determining the relative standalone selling price can be challenging when goods or services are not sold on a standalone basis. The revenue standard sets out several methods that can be used to estimate a standalone selling price when one is not directly observable. Allocating discounts and variable consideration must also be considered. Allocating the transaction price can require significant judgement on our part.

Revenue is recognized when (or as) the customer obtains control of the good or service/performance obligations are satisfied. Topic 606 provides guidance to help determine if a performance obligation is satisfied at a point in time or over time. Where a performance obligation is satisfied over time, the related revenue is also recognized over time.

Disaggregation of revenue

The following table provides information about disaggregated revenue by timing of revenue recognition, (in thousands):

	Three Months Ended September 30, 2020			
	Product revenue	**License and royalty revenue**	**Contract revenue**	**Total**
Timing of revenue recognition:				
Products transferred at a point in time	$ 100	$ 539	$ -	$ 639
Product and services transferred over time	-	-	-	-
Total	$ 100	$ 539	$ -	$ 639

	Nine Months Ended September 30, 2020			
	Product revenue	**License and royalty revenue**	**Contract revenue**	**Total**
Timing of revenue recognition:				
Products transferred at a point in time	$ 1,347	$ 1,323	$ 4	$ 2,674
Product and services transferred over time	-	-	21	21
Total	$ 1,347	$ 1,323	$ 25	$ 2,695

	Three Months Ended September 30, 2019			
	Product revenue	License and royalty revenue	Contract revenue	Total
Timing of revenue recognition:				
Products transferred at a point in time	$ 999	$ 17	$ 121	$ 1,137
Product and services transferred over time	-	-	53	53
Total	$ 999	$ 17	$ 174	$ 1,190

	Nine Months Ended September 30, 2019			
	Product revenue	License and royalty revenue	Contract revenue	Total
Timing of revenue recognition:				
Products transferred at a point in time	$ 1,198	$ 17	$ 173	$ 1,388
Product and services transferred over time	-	-	2,893	2,893
Total	$ 1,198	$ 17	$ 3,066	$ 4,281

Contract balances

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers (in thousands):

	September 30, 2020	December 31, 2019
Accounts receivable, net	$ -	$ 1,079
Accrued liabilities	-	432
Deferred revenue	-	21
Contract liabilities	8,160	9,755

Under Topic 606, our rights to consideration are presented separately depending on whether those rights are conditional or unconditional. We present our unconditional rights to consideration as "accounts receivable" in our Balance Sheet.

Contract liabilities in the table below are presented as contract liabilities, deferred revenue, and a portion of accrued liabilities on the balance sheet. Significant changes in the contract assets and the contract liabilities balances during the period are as follows (in thousands, except percentages):

	September 30, 2020	December 31, 2019	$ Change	% Change
Contract assets	$ -	$ -	$ -	-
Contract liabilities	(8,160)	(10,208)	2,048	(20.1)
Net contract assets (liabilities)	$ (8,160)	$ (10,208)	$ 2,048	(20.1)

During the three and nine months ended September 30, 2020, we applied $539,000 and $1.6 million, respectively, against the contract liability with our April 2017 customer.

During 2019, we reached an agreement with the distributor in our Ragentek contract on the final transaction price of the units shipped to them. As part of the agreement reached in 2019, we agreed to return $432,000 of the original transaction price to our distributor and the amount was included in accrued liabilities at December 31, 2019. During the three and nine months ended September 30, 2020, payments totaling $59,000 and $332,000 were made to the distributor. During the three months ended September 30, 2020, we settled all claims with Ragentek and our distributor. Per the terms of the agreement, the final $100,000 payment to our distributor was no longer required. As a result, we recognized $100,000 of product revenue during the three months ended September 30, 2020 as an adjustment to the transaction price of products previously transferred to our customer.

Contract acquisition costs

We are required to capitalize certain contract acquisition costs consisting primarily of commissions paid when contracts are signed. We currently do not pay any commissions upon the signing of a contract; therefore, no commission cost has been incurred as of September 30, 2020.

Transaction price allocated to the remaining performance obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The $10.0 million upfront payment received from a major technology company was being recognized as revenue as component sales were transferred to the customer. Under the new arrangement reached in March 2020, the royalties we expect to earn will be applied against the remaining prepayment. We expect to apply an additional $400,000 during the fourth quarter of 2020, and this amount is included in revenue below. Because there is uncertainty about the timing of the application of the remainder of the contract liability, it has been excluded from future estimated revenue in the table below. The $8.2 million contract liability is classified as a current liability on our balance sheet. It is likely that recognition of revenue may extend beyond the next twelve months. The following table provides information about the estimated timing of revenue recognition (in thousands):

	Remainder of 2020	2021
License and royalty revenue	$ 400	$ -

6. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS AND SUPPLIERS

Concentration of credit risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily cash equivalents and accounts receivable. We typically do not require collateral from our customers. As of September 30, 2020, our cash and cash equivalents are comprised of short-term highly rated money market savings accounts.

Concentration of major customers and suppliers

For the three and nine months ended September 30, 2020, one customer accounted for $539,000 and $2.6 million in revenue, representing 84% and 96% of our total revenue, respectively. For the three and nine months ended September 30, 2019, one customer accounted for $1.2 million and $2.8 million in revenue, representing 97% and 92% of our total revenue, respectively.

A significant concentration of our components and the products we sell are currently manufactured and obtained from single or limited-source suppliers. The loss of any single or limited-source supplier, the failure of any of these suppliers to perform as expected, or the disruption in the supply chain of components from these suppliers could subject us to risks and uncertainties including, but not limited to, increased cost of sales, possible loss of revenues, or significant delays in product deliveries, any of which could adversely affect our financial condition and operating results.

7. INVENTORY

Inventory consists of the following:

(*in thousands*)	September 30, 2020	December 31, 2019
Raw materials	$ -	$ -
Finished goods	-	192
	$ -	$ 192

Inventory consists of raw materials and finished goods assemblies. Inventory is computed using the first-in, first-out (FIFO) method and is stated at the lower of cost and net realizable value. Management periodically assesses the need to account for obsolescence of inventory and adjusts the carrying value of inventory to its net realizable value when required. As of December 31, 2019, $168,000 of materials that were not expected to be consumed during the next twelve months were classified as "other assets" on the balance sheet. During the nine months ended September 30, 2020 and 2019, we recorded inventory write-downs of $168,000 and $2.2 million, respectively.

8. SHARE-BASED COMPENSATION

We issue share-based compensation to employees in the form of stock options, restricted stock units (RSUs), and performance stock units (PSUs). We account for the share-based awards by recognizing the fair value of share-based compensation expense on a straight-line basis over the service period of the award, net of estimated forfeitures. The fair value of stock options is estimated on the grant date using the Black-Scholes option pricing model. The fair value of RSUs is determined by the closing price of our common stock on the grant date. The PSUs are valued using a binomial option pricing model using the following inputs: stock price, volatility, and risk-free interest rates. Changes in estimated inputs or using other option valuation methods may result in materially different option values and share-based compensation expense.

The following table summarizes the amount of share-based compensation expense by line item on the statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(*in thousands*)	2020	2019	2020	2019
Cost of product revenue	$ -	$ 25	$ -	$ 26
Research and development expense	291	84	433	283
Sales, marketing, general and administrative expense	159	149	406	568
	$ 450	$ 258	$ 839	$ 877

Options activity and positions

The following table summarizes shares, weighted-average exercise price, weighted-average remaining contractual term and aggregate intrinsic value of options outstanding and options exercisable as of September 30, 2020:

Options	**Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (years)**	**Aggregate Intrinsic Value**
Outstanding as of September 30, 2020	3,906,000	$ 1.49	6.6	$ 2,459,000
Exercisable as of September 30, 2020	2,658,000	$ 1.78	5.7	$ 1,105,000

During the nine months ended September 30, 2020, we issued 1.2 million shares of RSUs to non-executive employees for retention purposes. These shares were valued based on the closing price of our common stock on the date of grant. These shares vest on the earlier of a change of control of the Company or the one-year anniversary of the grant date.

During the nine months ended September 30, 2019 we issued 475,000 stock options and 195,000 PSUs to our executive officers. These PSUs have performance criteria that would require the Company's stock price to appreciate by more than 100% of the closing stock price on the grant date before they become earned. In the event that the performance criteria are satisfied, earned PSUs vest in equal annual installments on each of the first three anniversaries of May 22, 2019, subject to the recipient's continued employment on the applicable vesting date. In the event the performance criteria are satisfied after any such annual vesting date, the portion of any such earned PSUs that would have vested on any such earlier annual vesting date will immediately vest.

As of September 30, 2020, our unrecognized share-based employee compensation related to stock options was $480,000 which we plan to amortize over the next 1.4 years, our unrecognized share-based compensation related to RSUs was $1.0 million which we plan to amortize over the next 0.7 years, and our unrecognized share-based compensation related to the PSUs was $7,000, which we plan to amortize over the next 1.2 years.

9. LEASES

In February 2016, the FASB issued Accounting Standards Update 2016-02 (ASU 2016-02), Leases (Topic 842). ASU 2016-02 requires lessees to recognize a right-of-use (ROU) asset and lease liability in the balance sheet for all leases, including operating leases, with terms of more than twelve months. Recognition, measurement and presentation of expenses and cash flows from a lease by a lessee have not significantly changed from previous guidance. The amendments also require qualitative disclosures along with specific quantitative disclosures. We adopted this guidance using the cumulative-effect adjustment method on January 1, 2019, meaning we did not restate prior periods. Current year financial information is presented under the guidance in Topic 842, while prior year information will continue to be presented under Topic 840. Adoption of the standard resulted in the recognition of an operating ROU asset of approximately $1.6 million, a lease liability of approximately $2.5 million, and a reduction in other short-term and long-term liabilities of $873,000. Adoption of the standard did not have a material impact on our Statement of Operations or Statement of Cash flows. Accounting for our capital leases remains substantially unchanged.

We lease our office space and certain equipment under finance and operating leases. Our leases have remaining lease terms of one to three years. Our office space lease contains an option to extend the lease for one period of five years. This extension period is not included in our ROU asset or lease liability amounts. Our office lease agreement includes both lease and non-lease components, which are accounted for separately. Our finance leases contain options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless we are reasonably certain to exercise the purchase option.

The components of lease expense were as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Operating lease expense	$ 116	$ 116	$ 348	$ 348
Finance lease expense:				
Amortization of leased assets	6	4	18	12
Interest on lease liabilities	-	2	2	5
Total finance lease expense	6	6	20	17
Total lease expense	$ 122	$ 122	$ 368	$ 365

Supplemental cash flow information related to leases was as follows:

	Nine Months Ended September 30,	
	2020	**2019**
(in thousands)		
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$ 491	$ 481
Operating cash flows from finance leases	2	5
Financing cash flows from finance leases	19	15
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	$ -	$ 1,638
Finance leases	-	-

Supplemental balance sheet information related to leases was as follows:

(in thousands)	September 30, 2020	December 31, 2019
Operating leases		
Operating lease right-of-use assets	$ 1,040	$ 1,308
Current portion of operating lease liability	671	656
Operating lease liability, net of current portion	922	1,348
Total operating lease liabilities	$ 1,593	$ 2,004
Finance leases		
Property and equipment, at cost	$ 66	$ 66
Accumulated depreciation	(36)	(25)
Property and equipment, net	$ 30	$ 41
Current portion of finance lease obligations	$ 15	$ 25
Finance lease obligations, net of current portion	-	9
Total finance lease liabilities	$ 15	$ 34
Weighted Average Remaining Lease Term		
Operating leases	2.5 years	3.3 years
Finance leases	0.6 years	1.4 years
Weighted Average Discount Rate		
Operating leases	6.0%	6.0%
Finance leases	13.8%	13.8%

As of September 30, 2020, maturities of lease liabilities were as follows:

(in thousands)	Operating leases	Finance leases
Years Ended December 31,		
2020	$ 165	$ 7
2021	676	9
2022	696	-
2023	175	-
Thereafter	-	-
Total minimum lease payments	1,712	16
Less: amount representing interest	(119)	(1)
Present value of capital lease liabilities	$ 1,593	$ 15

10. COMMITMENTS AND CONTINGENCIES

Litigation

In March 2019, we filed a Notice of Arbitration in Hong Kong against Ragentek as a result of its failure to perform its obligations under a purchase order with us. During 2019, we reached an agreement with the distributor in our Ragentek contract on the final transaction price of the units shipped to them. As part of the agreement reached in 2019, we agreed to return $432,000 of the original transaction price to our distributor. During the three and nine months ended September 30, 2020, payments totaling $59,000 and $332,000 were made to the distributor. During the three months ended September 30, 2020, we settled all claims with Ragentek and our distributor. Per the terms of the agreement, the final $100,000 payment to our distributor was no longer required. Upon settlement we dismissed the arbitration.

We are subject to various claims and pending or threatened lawsuits in the normal course of business. We are not currently party to any legal proceedings that management believes are reasonably possible to have a material adverse effect on our financial position, results of operations or cash flows.

11. COMMON STOCK

In December 2019, we entered into a Common Stock Purchase Agreement with Lincoln Park granting us the right to sell shares of our common stock having an aggregate value of up to $16.0 million. Under the terms of the agreement, Lincoln Park made an initial purchase of 1.5 million shares of common stock for $1.0 million at a purchase price of $0.6531 per share. Subject to various limitations and conditions set forth in the agreement, we may sell up to an additional $15.0 million in shares of common stock, from time to time, at our sole discretion to Lincoln Park over a 24-month period beginning December 2019. In consideration for entering into the agreement, we issued 375,000 shares of our common stock, having a value of $277,000, based on the closing stock price at the date of grant, to Lincoln Park as a commitment fee. We incurred an additional $90,000 in issuance costs. As of September 30, 2020, we have issued 19.7 million shares and raised a total of $9.9 million under this agreement.

In July 2019, we raised $2.0 million before issuance costs of approximately $24,000 through a registered direct offering of 3.0 million shares of our common stock to a private investor.

In April 2019, we raised $2.0 million before issuance costs of approximately $34,000 through a registered direct offering of 2.3 million shares of our common stock to a private investor.

In April 2019, we entered into a Common Stock Purchase Agreement with Lincoln Park granting us the right to sell shares of our common stock having an aggregate value of up to $11.0 million. Under the terms of the agreement, Lincoln Park made an initial purchase of $1.0 million in shares of common stock at a purchase price of $0.98 per share. In consideration for entering into the agreement, we issued 250,000 shares of our common stock, having a value of $258,000, based on the closing stock price at the date of grant, to Lincoln Park as a commitment fee. We incurred an additional $92,000 in issuance costs. As of December 31, 2019, we had issued 15.7 million shares and raised a total of $11.0 million under this agreement. No further shares are available for sales under this agreement.

In January 2019, we raised $1.2 million before issuance costs of approximately $26,000 through a registered direct offering of 2.0 million shares of our common stock to a private investor.

12. SUBSEQUENT EVENTS

On October 8, 2020, we filed a Certificate of Amendment (the "Certificate of Amendment") to our Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware to increase the authorized number of shares of our capital stock to 235,000,000 shares, consisting of (i) 210,000,000 shares of common stock, $.001 par value and (ii) 25,000,000 shares of preferred stock, $.001 par value. The Certificate of Amendment was effective upon the filing thereof with the Secretary of State of the State of Delaware. The results of the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the authorized number of shares of Common Stock were as follows: 110,507,257 in favor, 4,892,245 against, and 316,093 abstaining.

Subsequent to September 30, 2020 and through October 26, 2020, we have issued 2.5 million shares and raised a total of $5.8 million under the Common Stock Purchase Agreement with Lincoln Park.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

<u>Forward-looking statements</u>

The information set forth in this report in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 3, "Quantitative and Qualitative Disclosures about Market Risk," includes "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by those sections. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, technology development by third parties, future operations, financing needs or plans of MicroVision, Inc. ("we," "our," or "us"), as well as assumptions relating to the foregoing. The words "anticipate," "could," "would," "believe," "estimate," "expect," "goal," "may," "plan," "project," "will," and similar expressions identify forward-looking statements. Factors that could cause actual results to differ materially from those projected in our forward-looking statements include risk factors identified below in Item 1A.

Overview

MicroVision, Inc. is a pioneer in laser beam scanning (LBS) technology that we market under our brand name PicoP®. We have developed our proprietary scanning technology that can be used in products for interactive projection, consumer light detection and ranging (LiDAR), automotive LiDAR, and augmented and mixed reality. Our PicoP® scanning technology is based on our patented expertise in systems that include micro-electrical mechanical systems (MEMS), laser diodes, opto-mechanics, electronics, algorithms and software and how those elements are packaged into a small form factor, low power scanning module that can display, interact and sense, depending on the needs of the application. These systems utilize edge computing and machine intelligence as part of the solutions.

For the past few years, our strategy has included selling LBS modules designed for original equipment manufacturers (OEMs) and original design manufacturers (ODMs). We planned to offer scanning modules to support a wide array of applications: an interactive scanning module for smart home speakers and other Internet of Things (IoT) products, a LiDAR module for consumer electronic applications, and solutions for augmented and mixed reality devices. We have also been developing our 1st generation MEMS Dynamic Scanning Long Range LiDAR (LRL) module for OEM and Tier 1 acceptance for automotive active collision avoidance systems and autonomous driving vehicles. This product would also be targeted for Direct Sales to Technology companies focused on Mobility as a Service (MaaS) that continue to drive the market for automotive lidar. However, we have so far been unable to secure a customer to launch one of our module products. As a result, we plan to focus our attention on strategic alternatives, including a potential sale or merger of the Company, sale of part of the Company, strategic minority investment, as well as licensing and other transactions.

While we continue to pursue strategic alternatives, we plan to focus on completing development of our 1st Generation LRL module to a level that would be ready to scale in market. We believe our technology and designs for automotive LiDAR can be successful in the market, and our solutions will have features and performance that exceed those of competitors and will provide a sustainable strategic advantage in the market. We believe this would maximize shareholder value in strategic alternatives through a potential acquirer.

Beginning in the third quarter of 2019 and through the end of February 2020, we were selling components to a high definition display system that we developed for a customer under a development agreement. The volume and resulting revenue and gross profit from this business was fairly low. Therefore, in March 2020 we transferred production of the components to the customer. Starting in March, we will earn a royalty from the customer for each unit shipped, with amounts applied against the prepayment that we had previously received from the customer until the prepayment is exhausted. The value of the royalty is approximately equal to the amount of gross profit we would have earned if we continued to produce and ship the components. We believe this arrangement will help us conserve cash, and still preserves our ability to experience financial reward should the volume of components increase in the future.

We have incurred substantial losses since inception, and we expect to incur a significant loss during the fiscal year ending December 31, 2020.

Impact of COVID-19 on Our Business

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, which continues to be spread throughout the United States and the world. The impact from the COVID-19 outbreak is uncertain and may impact our business and results of operations and could impact our financial condition in the future. We are unable to accurately predict the full impact that COVID-19 may have due to numerous uncertainties, including the severity, duration and spread of the outbreak, and actions that may be taken by governmental authorities.

Several of the suppliers of components in our LBS modules have experienced closures or have been operating at reduced capacity, resulting in lower than planned product shipments. Continued disruptions to the supply chain could have a material impact on our future operating results.

As a result of the COVID-19 pandemic, including related governmental guidance or directives, we have required most office-based employees to work remotely. We may experience reductions in productivity and disruptions to our business routines while our remote work policy remains in place. This could have an adverse effect on the timing of our development activities, our ability to raise additional capital, our ability to enter into licensing agreements, or our ability to complete a potential sale or merger of the Company.

In April 2020, we received funds in the amount of $1,570,881 pursuant to a loan under the Paycheck Protection Program of the 2020 CARES Act ("PPP") administered by the Small Business Administration. The loan has an interest rate of 0.98% and a term of 24 months. No payments are due for the first 6 months, although interest accrues during that period. Thereafter, the loan is repayable in monthly installments over the next 18 months to retire the loan plus accrued interest. Funds from the loan may only be used for certain purposes, including payroll, benefits, rent and utilities, and a portion of the loan used to pay certain costs may be forgivable, all as provided by the terms of the PPP. The CARES Act reduces the amount of the PPP loan that may be forgiven if the borrower reduces full-time equivalent employees during the covered period as compared to a base period. As of September 30, 2020, all of the funds received under the PPP had been used for qualified purposes. We intend to apply for partial forgiveness of the loan under PPP guidelines. Based on the terms of the PPP, we estimate the amount of the loan that will be forgiven will be approximately $690,000, subject to approval by our lender in accordance with PPP guidelines. The loan is evidenced by a promissory note, which contains customary events of default relating to, among other things, payment defaults and breaches of representations and warranties. We may prepay the loan at any time prior to maturity with no prepayment penalties.

Key accounting policies and estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that materially affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We evaluate our estimates on a continuous basis. We base our estimates on historical data, terms of existing contracts, our evaluation of trends in the consumer display and 3D sensing industries, information provided by our current and prospective customers and strategic partners, information available from other outside sources and on various other assumptions we believe to be reasonable under the circumstances. The results form the basis for making judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes to our critical accounting judgments, policies, and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2019.

Results of operations

Product revenue

(*in thousands*)	**2020**	**2019**	**$ change**	**% change**
Three Months Ended September 30,	$ 100	$ 999	$ (899)	(90.0)
Nine Months Ended September 30,	1,347	1,198	149	12.4

Product revenue is revenue from sales of our products which are LBS modules and their components. Revenue is recognized when control of the goods passes to the customer. Our quarterly product revenue may vary substantially due to the timing of product orders from customers, product shipments, production constraints and availability of components and raw materials.

The decrease in product revenue for the three months ended September 30, 2020 compared to the same period in 2019 was primarily due to lower product shipments to a major technology company. During the three months ended September 30, 2020, we settled all claims with Ragentek and our distributor. Per the terms of the agreement, the final $100,000 payment to our distributor was no longer required. As a result, we recognized $100,000 of product revenue during the three months ended September 30, 2020 as an adjustment to the transaction price of products previously transferred to our customer. Product revenue for the three months ended September 30, 2019 includes $360,000 related to selling display engines produced for Ragentek, and previously written off, to another customer.

The increase in product revenue for the nine months ended September 30, 2020 compared to the same period in 2019 was primarily due to product shipments to a major technology company. In March 2020, we completed an agreement for our customer to take over production of the components we had been producing for them. Product revenue backlog at September 30, 2020 and 2019 was zero and $5.5 million, respectively.

License and royalty revenue

(*in thousands*)	2020	2019	$ change	% change
Three Months Ended September 30,	$ 539	$ 17	$ 522	3,070.6
Nine Months Ended September 30,	1,323	17	1,306	7,682.4

License and royalty revenue is revenue under license agreements to our PicoP® scanning technology. We recognize revenue on upfront license fees at a point in time if the nature of the license granted is a right-to-use license, representing functional intellectual property with significant standalone functionality. If the nature of the license granted is a right-to-access license, representing symbolic intellectual property, which excludes significant standalone functionality, we recognize revenue over the period of time we have ongoing obligations under the agreement. We will recognize revenue from sales-based royalties on the basis of the quarterly reports provided by our customer as to the number of royalty-bearing products sold or otherwise distributed. In the event that reports are not received, we will estimate the number of royalty-bearing products sold by our customers.

In March 2020, we entered into an agreement for our customer to take over production of the components we had been producing for them. The agreement provides that, beginning in March 2020, we will earn a royalty on each component shipped that is approximately equal to the gross profit we earned on each component we had previously produced. The increase in license and royalty revenue for the three and nine months ended September 30, 2020 compared to the same periods in 2019 was primarily due the number of royalty-bearing products sold by our customers.

Contract revenue

(*in thousands*)	2020	2019	$ change	% change
Three Months Ended September 30,	$ -	$ 174	$ (174)	(100.0)
Nine Months Ended September 30,	25	3,066	(3,041)	(99.2)

Contract revenue includes revenue from performance on development contracts and the sale of prototype units and evaluation kits based on our PicoP® scanning module. Our contract revenue in a particular period is dependent upon when we enter into a contract, the value of the contracts we have entered into, and the availability of technical resources to perform work on the contracts. We recognize contract revenue either at a point in time, or over time, depending upon the characteristics of the individual contract. If control of the deliverable(s) occur over time, the revenue is recognized in proportion to the transfer of control. If control passes to the customer only upon completion and transfer of the asset, revenue is recognized at the completion of the contract. In contracts that include significant customer acceptance provisions, we recognize revenue only upon acceptance of the deliverable(s).

The decrease in contract revenue during the three and nine months ended September 30, 2020 compared to the same period in 2019 was attributed to decreased contract activity because the contract with our April 2017 customer was completed in 2019. Our contract backlog, including orders for prototype units and evaluation kits, at September 30, 2020 and 2019 was zero.

Cost of product revenue

(*in thousands*)	2020	% of product revenue	2019	% of product revenue	$ change	% change
Three Months Ended September 30,	$ -	-	$ 2,039	204.1	$ (2,039)	(100.0)
Nine Months Ended September 30,	1,394	103.5	3,352	279.8	(1,958)	(58.4)

Cost of product revenue includes the direct and allocated indirect costs of products sold to customers. Direct costs include labor, materials, reserves for estimated warranty expenses, and other costs incurred directly, or charged to us by our contract manufacturers, in the manufacture of these products. Indirect costs include labor, manufacturing overhead, and other costs associated with operating our manufacturing capabilities and capacity. Manufacturing overhead includes the costs of procuring, inspecting and storing material, facility and other costs, and is allocated to cost of product revenue based on the proportion of indirect labor which supported production activities.

Cost of product revenue can fluctuate significantly from period to period, depending on the product mix and volume, the level of manufacturing overhead expense and the volume of direct material purchased. Cost of product revenue was lower during the three and nine months ended September 30, 2020 compared to the same periods in 2019 due to lower inventory write-downs and lower product shipments to a major technology company. Inventory write-downs of $168,000 and $2.2 million were recorded in the nine months ended September 30, 2020 and 2019, respectively.

Cost of contract revenue

(*in thousands*)		2020	% of contract revenue		2019	% of contract revenue		$ change	% change
Three Months Ended September 30,	$	-	-	$	33	19.0	$	(33)	(100.0)
Nine Months Ended September 30,		4	16.0		1,786	58.3		(1,782)	(99.8)

Cost of contract revenue includes both the direct and allocated indirect costs of performing on contracts and producing prototype units and evaluation kits. Direct costs include labor, materials and other costs incurred directly in producing prototype units and evaluation kits or performing on a contract. Indirect costs include labor and other costs associated with operating our research and development department and building our technical capabilities and capacity. Cost of contract revenue is determined by the level of direct and indirect costs incurred, which can fluctuate substantially from period to period.

The decrease in the cost of contract revenue during the three and nine months ended September 30, 2020 compared to the same period in 2019 was primarily attributed to reduced activity on the April 2017 development contract because the contract was completed in 2019.

Research and development expense

(*in thousands*)		2020		2019		$ change	% change
Three Months Ended September 30,	$	1,972	$	3,566	$	(1,594)	(44.7)
Nine Months Ended September 30,		7,262		15,484		(8,222)	(53.1)

Research and development expense consists of compensation related costs of employees and contractors engaged in internal research and product development activities, direct material to support development programs, laboratory operations, outsourced development and processing work, and other operating expenses. We assign our research and development resources based on the business opportunity of the available projects, the skill mix of the resources available and the contractual commitments we have made to our customers. We believe that a substantial level of continuing research and development expense will be required to further develop our scanning technology.

The decrease in research and development expense during the three and nine months ended September 30, 2020 compared to the same periods in 2019 was due to reduced personnel-related compensation and benefits expenses and lower direct materials and subcontractor costs.

Sales, marketing, general and administrative expense

(*in thousands*)		2020		2019		$ change	% change
Three Months Ended September 30,	$	1,485	$	1,697	$	(212)	(12.5)
Nine Months Ended September 30,		4,536		6,851		(2,315)	(33.8)

Sales, marketing, general and administrative expense includes compensation and support costs for marketing, sales, management and administrative staff, and for other general and administrative costs, including legal and accounting services, consultants and other operating expenses.

The decrease in sales, marketing, general and administrative expense during the three and nine months ended September 30, 2020 compared to the same period in 2019 was attributed to reduced personnel-related compensation and benefits expenses and purchased services.

Liquidity and capital resources

We have incurred significant losses since inception. We have funded operations to date primarily through the sale of common stock, convertible preferred stock, warrants, the issuance of convertible debt and, to a lesser extent, from development contract revenues, product sales, and licensing activities. At September 30, 2020, we had $5.0 million in cash and cash equivalents.

Based on our current operating plan that includes anticipated future proceeds from the sale of shares under our existing Purchase Agreement with Lincoln Park Capital Fund, LLC ("Lincoln Park"), we anticipate that we have sufficient cash and cash equivalents to fund our operations through the first quarter of 2021. We will require additional capital to fund our operating plan past that time. We plan to seek additional capital through the issuance of equity or debt securities, and/or licensing activities. There can be no assurance that additional capital will be available to us or, if available, will be available on terms acceptable to us or on a timely basis. If adequate capital resources are not available on a timely basis, we intend to consider limiting our operations substantially. This limitation of operations could include further reductions in our production capacities, research and development projects, staff, operating costs, and capital expenditures.

These factors raise substantial doubt regarding our ability to continue as a going concern. Our unaudited financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Operating activities

Cash used in operating activities totaled $11.8 million during the nine months ended September 30, 2020 compared to cash used in operating activities of $19.7 million during the same period in 2019. The change in cash flows from operating activities is primarily attributed to reduced operating expenses and the timing of payments received from customers during the nine months ended September 30, 2020 compared to the same period in 2019.

Investing activities

During the nine months ended September 30, 2020, net cash provided by investing activities was $431,000 compared to net cash used in investing activities of $671,000 during the nine months ended September 30, 2019. During the nine months ended September 30, 2020, we sold fixed assets to our customer for $525,000 as part of our agreement with them to take over production of the components we had been producing. Purchases of property and equipment during the nine months ended September 30, 2020 and 2019 were $94,000 and $671,000, respectively.

Financing activities

In April 2020, we received funds in the amount of $1,570,881 pursuant to a loan under the PPP administered by the Small Business Administration. The loan has an interest rate of 0.98% and a term of 24 months. As of September 30, 2020, all of the funds received under the PPP had been used for qualified purposes. We intend to apply for partial forgiveness of the loan under PPP guidelines. Based on the terms of the PPP, we estimate the amount of the loan that will be forgiven will be approximately $690,000, subject to approval by our lender pursuant to PPP guidelines.

In December 2019, we entered into a Common Stock Purchase Agreement with Lincoln Park granting us the right to sell shares of our common stock having an aggregate value of up to $16.0 million. Under the terms of the agreement, Lincoln Park made an initial purchase of 1.5 million shares of common stock for $1.0 million at a purchase price of $0.6531 per share. Subject to various limitations and conditions set forth in the agreement, we may sell up to an additional $15.0 million in shares of common stock, from time to time, at our sole discretion to Lincoln Park over a 24-month period beginning December 2019. In consideration for entering into the agreement, we issued 375,000 shares of our common stock, having a value of $277,000, based on the closing stock price at the date of grant, to Lincoln Park as a commitment fee. We incurred an additional $90,000 in issuance costs. As of September 30, 2020, we have issued 19.7 million shares and raised a total of $9.9 million under this agreement.

In July 2019, we raised $2.0 million before issuance costs of approximately $24,000 through a registered direct offering of 3.0 million shares of our common stock to a private investor.

In April 2019, we raised $2.0 million before issuance costs of approximately $34,000 through a registered direct offering of 2.3 million shares of our common stock to a private investor.

In April 2019, we entered into a Common Stock Purchase Agreement with Lincoln Park granting us the right to sell shares of our common stock having an aggregate value of up to $11.0 million. Under the terms of the agreement, Lincoln Park made an initial purchase of $1.0 million in shares of common stock at a purchase price of $0.98 per share. In consideration for entering into the agreement, we issued 250,000 shares of our common stock, having a value of $258,000, based on the closing stock price at the date of grant, to Lincoln Park as a commitment fee. We incurred an additional $92,000 in issuance costs. As of December 31, 2019, we had issued 15.7 million shares and raised a total of $11.0 million under this agreement. No further shares are available for sales under this agreement.

In January 2019, we raised $1.2 million before issuance costs of approximately $26,000 through a registered direct offering of 2.0 million shares of our common stock to a private investor.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and market liquidity risk

As of September 30, 2020, all of our cash and cash equivalents have variable interest rates. Therefore, we believe our exposure to market and interest rate risk is not material.

Our investment policy generally directs that the investment manager should select investments to achieve the following goals: principal preservation, adequate liquidity and return. As of September 30, 2020, we had $5.0 million in cash and cash equivalents, which are comprised of operating checking accounts and short-term, highly rated money market savings accounts.

Foreign exchange rate risk

Our major contract and collaborative research and development agreements, product sales, and licensing activity payments are currently made in U.S. dollars. However, in the future we may enter into contracts or collaborative research and development agreements in foreign currencies that may subject us to foreign exchange rate risk. We have entered into purchase orders and supply agreements in foreign currencies in the past and may enter into such arrangements, from time to time, in the future. We believe our exposure to currency fluctuations related to these arrangements is not material. We may enter into foreign currency hedges to offset material exposure to currency fluctuations when we can adequately determine the timing and amounts of the exposure.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report and, based on this evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) that occurred during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

ITEM 1. LEGAL PROCEEDINGS

In March 2019, we filed a Notice of Arbitration in Hong Kong against Ragentek as a result of its failure to perform its obligations under a purchase order with us. During 2019, we reached an agreement with the distributor in our Ragentek contract on the final transaction price of the units shipped to them. As part of the agreement reached in 2019, we agreed to return $432,000 of the original transaction price to our distributor. During the three and nine months ended September 30, 2020, payments totaling $59,000 and $332,000 were made to the distributor. During the three months ended September 30, 2020, we settled all claims with Ragentek and our distributor. Per the terms of the agreement, the final $100,000 payment to our distributor was no longer required. Upon settlement we dismissed the arbitration.

We are also subject to various claims and pending or threatened lawsuits in the normal course of business. We are not currently party to any other legal proceedings that management believes are reasonably possible to have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below together with the other information set forth in this report, which could materially affect our business, financial condition and future results. The risks described below are not the only risks facing our company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

Risk Factors Related to Our Business and Industry

We have a history of operating losses and expect to incur significant losses in the future.

We have had substantial losses since our inception. We cannot assure you that we will ever become or remain profitable.

- As of September 30, 2020, we had an accumulated deficit of $582.7 million.
- We had an accumulated deficit of $572.6 million as of December 31, 2019, and a net loss of $10.1 million during the nine months ended September 30, 2020.

The likelihood of our success must be considered in light of the expenses, difficulties and delays frequently encountered by companies formed to develop and commercialize new technologies. In particular, our operations to date have focused primarily on research and development of our PicoP® scanning technology system and development of demonstration units. We are unable to accurately estimate future revenues and operating expenses based upon historical performance.

We cannot be certain that we will succeed in obtaining additional development revenue or commercializing our technology or products. In light of these factors, we expect to continue to incur significant losses and negative cash flow at least through 2020 and likely thereafter. We cannot be certain that we will achieve positive cash flow at any time in the future.

We have been unable to secure a customer to launch one of our module products in 2020, as planned. As a result, we plan to focus our attention in the near term on strategic alternatives, including a potential sale or merger of the Company, sale of part of the Company, strategic minority investment, as well as licensing and other transactions. There is substantial risk that these efforts will be unsuccessful. Such efforts may also be impeded by the impact of COVID-19 on parties who might have otherwise been interested in pursuing a transaction or on economic and market conditions generally.

COVID-19 has had an adverse effect on our business, and the future COVID-19 effects on our financial position and business prospects are uncertain.

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, which continues to be spread throughout the United States and the world. The impact from the COVID-19 outbreak is uncertain and may impact our business and results of operations and could impact our financial condition in the future. We are unable to accurately predict the full impact that COVID-19 may have due to numerous uncertainties, including the severity, duration and spread of the outbreak, and actions that may be taken by governmental authorities.

The adverse impacts of the pandemic on our business and future financial performance could include, but are not limited to:

- our ability to raise additional capital,
- our ability to enter into licensing agreements,
- our technology development plans and timelines,
- significant declines in revenue due to supply chain disruptions,
- our operating effectiveness resulting from employees working remotely,
- and our ability to complete a sale or merger of the Company.

We will require additional capital to fund our operations and to implement our business plan. If we do not obtain additional capital, we may be required to curtail our operations substantially. Raising additional capital may dilute the value of current shareholders' shares.

Based on our current operating plan that includes anticipated future proceeds from the sale of shares under our existing Purchase Agreement with Lincoln Park Capital Fund, LLC ("Lincoln Park"), we anticipate that we have sufficient cash and cash equivalents to fund our operations through the first quarter of 2021. We will require additional capital to fund our operating plan past that time. We plan to seek additional capital through the issuance of equity or debt securities, product sales and/or licensing activities. There can be no assurance that any such efforts to obtain additional capital will be successful.

While we continue to pursue strategic alternatives, we plan to focus on developing our automotive LiDAR module. This would involve introducing new technology into an emerging market which creates significant uncertainty about our ability to accurately project revenue, costs and cash flows. Our capital requirements will depend on many factors, including, but not limited to, the commercial success of our LBS modules, the rate at which OEMs and ODMs introduce products incorporating our PicoP® scanning technology and the market acceptance and competitive position of such products. If revenues are less than we anticipate, if the mix of revenues and the associated margins varies from anticipated amounts or if expenses exceed the amounts budgeted, we may require additional capital earlier than expected to fund our operations. In addition, our operating plan provides for the development of strategic relationships with suppliers of components, products and systems, and equipment manufacturers that may require additional investments by us.

Additional capital may not be available to us or, if available, may not be available on terms acceptable to us or on a timely basis. Raising additional capital may involve issuing securities with rights and preferences that are senior to our common stock and may dilute the value of our current shareholders' shares. If adequate capital resources are not available on a timely basis, we may consider limiting our operations substantially and we may be unable to continue as a going concern. This limitation of operations could include further reductions in our production capacities or research and development projects, staff, operating costs, and capital expenditures which could jeopardize our ability to achieve our business goals or satisfy our customer requirements. In February 2020, we reduced headcount by approximately 60% following an OEM's decision not to incorporate our technology into its products. As a result, further cost reduction efforts may be particularly difficult to implement.

Qualifying a new or alternative contract manufacturer or foundry for our products could cause us to experience delays that result in lost revenues and damaged customer relationships.

We rely on single or limited-source suppliers to manufacture our products. Establishing a relationship with a new or alternative contract manufacturer(s) or foundry is a time-consuming process, as our unique technology may require significant manufacturing process adaptation to achieve full manufacturing capacity. Accordingly, we may be unable to establish a relationship with new or alternative contract manufacturers in the short-term, or at all, at prices or on other terms that are acceptable to us.

Changes in our supply chain may result in increased cost and delay and may subject us to risks and uncertainties regarding, but not limited to, product warranty, product liability and quality control standards. The loss of any single or limited-source supplier, the failure of any of these suppliers to perform as expected or the disruption in the supply chain of components from these suppliers could cause significant delays in product deliveries, which may result in lost revenues and damaged customer relationships. To the extent that we are not able to establish a relationship with a new or alternative contract manufacturer(s) or foundry in a timely manner, we may be unable to meet contract or production milestones, which could have a material adverse effect on our financial condition, results of operations and cash flows.

Our success will depend, in part, on our ability to secure significant third-party manufacturing resources.

Our success will depend, in part, on our ability to provide our components and future products in commercial quantities at competitive prices and on schedule. Accordingly, we will be required to obtain access, through business partners or contract manufacturers, to manufacturing capacity and processes for the commercial production of our expected future products.

Our foreign contract manufacturers could experience severe financial difficulties or other disruptions in their business, and such continued supply could be significantly reduced or terminated. In addition, we cannot be certain that we will successfully obtain access to needed manufacturing resources concurrent with a significant increase in our planned production levels. Future manufacturing limitations of our suppliers could constrain the number of products that we are able to develop and produce.

We are dependent on third parties in order to develop, manufacture, sell and market products incorporating our PicoP® scanning technology, scanning modules, and the scanning module components.

Our business strategy for commercializing our technology in products incorporating PicoP® scanning technology includes entering into development, manufacturing, licensing, sales and marketing arrangements with OEMs, ODMs and other third parties. These arrangements reduce our level of control over production and distribution and may subject us to risks and uncertainties regarding, but not limited to, product warranty, product liability and quality control standards.

We cannot be certain that we will be able to negotiate arrangements on acceptable terms, if at all, or that these arrangements will be successful in yielding commercially viable products. If we cannot establish these arrangements, we would require additional capital to undertake such activities on our own and would require extensive manufacturing, sales and marketing expertise that we do not currently possess and that may be difficult to obtain.

In addition, we could encounter significant delays in introducing our PicoP® scanning technology or find that the development, manufacture or sale of products incorporating our technology would not be feasible. To the extent that we enter into development, manufacturing, licensing, sales and marketing or other arrangements, our revenues will depend upon the performance of third parties. We cannot be certain that any such arrangements will be successful.

We cannot be certain that our technology system or products incorporating our PicoP® scanning technology will achieve market acceptance. If our technology system or products incorporating our technology do not achieve market acceptance, our revenues may not grow.

Our success will depend in part on customer acceptance of our PicoP® scanning technology. Our technology may not be accepted by manufacturers who use display and 3D sensing technologies in their products, by systems integrators, OEMs, and ODMs who incorporate the scanning module components into their products or by end users of these products. To be accepted, our PicoP® scanning technology must meet the expectations of our current and potential customers in the consumer electronics, automotive, and other markets. If our technology system or products incorporating our PicoP® scanning technology do not achieve market acceptance, we may not be able to continue to develop our technology.

Future products incorporating our PicoP® scanning technology and scanning modules are dependent on advances in technology by other companies.

Our PicoP® scanning technology will continue to rely on technologies, such as laser diode light sources and other components that are developed and produced by other companies. The commercial success of certain future products incorporating our PicoP® scanning technology will depend, in part, on advances in these and other technologies by other companies. We may, from time to time, contract with and support companies developing key technologies in order to accelerate the development of them for our or our customers' specific uses. There are no guarantees that such activities will result in useful technologies or products that will be profitable.

We are dependent on a small number of customers for our revenue. Our quarterly performance may vary substantially and this variance, as well as general market conditions, may cause our stock price to fluctuate greatly and potentially expose us to litigation.

For the nine months ended September 30, 2020, one customer accounted for $2.6 million in revenue, representing 96% of our total revenue. For the nine months ended September 30, 2019, one customer accounted for $3.7 million in revenue, representing 86% of our total revenue and a second customer accounted for $559,000 in revenue, representing 13% of our total revenue. Our customers take time to obtain, and the loss of a significant customer could negatively affect our revenue. Our quarterly operating results may vary significantly based upon:

- Market acceptance of products incorporating our PicoP® scanning technology;
- Changes in evaluations and recommendations by any securities analysts following our stock or our industry generally;
- Announcements by other companies in our industry;
- Changes in business or regulatory conditions;
- The existence of regional or global outbreaks of infectious diseases;
- Announcements or implementation by our competitors of technological innovations or new products;
- The status of particular development programs and the timing of performance under specific development agreements;
- Economic and stock market conditions; or
- Other factors unrelated to our company or industry.

In one or more future quarters, our results of operations may fall below the expectations of securities analysts and investors and the trading price of our common stock may decline as a consequence. In addition, following periods of volatility in the market price of a company's securities, shareholders often have instituted securities class action litigation against that company.

If we become involved in a class action suit, it could divert the attention of management and, if adversely determined, could require us to pay substantial damages.

We or our customers may fail to perform under open orders or agreements, which could adversely affect our operating results and cash flows.

We or our customers may be unable to meet the performance requirements and obligations under open orders or agreements, including performance specifications, milestones or delivery dates, required by such purchase orders or agreements. Furthermore, our customers may be unable or unwilling to perform their obligations thereunder on a timely basis, or at all if, among other reasons, our products and technologies do not achieve market acceptance, our customers' products and technologies do not achieve market acceptance or our customers otherwise fail to achieve their operating goals. To the extent we are unable to perform under such purchase orders or agreements or to the extent customers are unable or unwilling to perform, our operating results and cash flows could be adversely affected.

We may not be able to maintain our listing on The Nasdaq Global Market and it may become more difficult to sell our stock in the public market.

Our common stock is listed on The Nasdaq Global Market. To maintain our listing on this market, we must meet Nasdaq's listing maintenance standards. If we are unable to continue to meet Nasdaq's listing maintenance standards for any reason, our common stock could be delisted from The Nasdaq Global Market. If our common stock were delisted, we may seek to list our common stock on The Nasdaq Capital Market, the American Stock Exchange or on a regional stock exchange or, if one or more broker-dealer market makers comply with applicable requirements, the over-the-counter (OTC) market. Listing on such other market or exchange could reduce the liquidity of our common stock. If our common stock were to trade in the OTC market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the common stock.

A delisting from The Nasdaq Global Market and failure to obtain listing on another market or exchange would subject our common stock to so-called penny stock rules that impose additional sales practice and market-making requirements on broker-dealers who sell or make a market in such securities. Consequently, removal from The Nasdaq Global Market and failure to obtain listing on another market or exchange could affect the ability or willingness of broker-dealers to sell or make a market in our common stock and the ability of purchasers of our common stock to sell their securities in the secondary market.

On October 26, 2020, the closing price of our common stock was $2.54 per share.

Our lack of financial and technical resources relative to our competitors may limit our revenues, potential profits, overall market share or value.

Our products and potential products incorporating our PicoP® scanning technology will compete with established manufacturers of existing products and companies developing new technologies. Many of our competitors have substantially greater financial, technical and other resources than we have. Because of their greater resources, our competitors may develop products or technologies that may be superior to our own. The introduction of superior competing products or technologies could result in reduced revenues, lower margins or loss of market share, any of which could reduce the value of our business.

We may not be able to keep up with rapid technological change and our financial results may suffer.

The consumer display and 3D sensing industries have been characterized by rapidly changing technology, accelerated product obsolescence and continuously evolving industry standards. Our success will depend upon our ability to further develop our PicoP® scanning technology system and to cost effectively introduce new products and features in a timely manner to meet evolving customer requirements and compete with competitors' product advances. We may not succeed in these efforts due to:

- Delays in product development;
- Lack of market acceptance for our technology or products incorporating our PicoP® scanning technology; or
- Lack of funds to invest in product research, development and marketing.

The occurrence of any of the above factors could result in decreased revenues, market share and value of our business.

We could face lawsuits related to our use of PicoP® scanning technology or other technologies. Defending these suits would be costly and time-consuming. An adverse outcome, in any such matter, could limit our ability to commercialize our technology or products incorporating our PicoP® scanning technology, reduce our revenues and increase our operating expenses.

We are aware of several patents held by third parties that relate to certain aspects of light scanning displays and 3D sensing products. These patents could be used as a basis to challenge the validity, limit the scope or limit our ability to obtain additional or broader patent rights of our patents or patents we have licensed. A successful challenge to the validity of our patents or patents we have licensed could limit our ability to commercialize our technology or products incorporating our PicoP® scanning technology and, consequently, materially reduce our revenues. Moreover, we cannot be certain that patent holders or other third parties will not claim infringement by us with respect to current and future technology. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications will eventually be issued with claims that will be infringed by our products or our technology.

The defense and prosecution of a patent suit would be costly and time-consuming, even if the outcome were ultimately favorable to us. An adverse outcome in the defense of a patent suit could subject us to significant costs, require others and us to cease selling products incorporating our technology, require us to cease licensing our technology or require disputed rights to be licensed from third parties. Such licenses, if available, would increase our operating expenses. Moreover, if claims of infringement are asserted against our future co-development partners or customers, those partners or customers may seek indemnification from us for any damages or expenses they incur.

If we fail to manage expansion effectively, our revenue and expenses could be adversely affected.

Our ability to successfully offer products incorporating PicoP® scanning technology and implement our business plan in a rapidly evolving market requires an effective planning and management process. The growth in business and relationships with customers and other third parties has placed, and will continue to place, a significant strain on our management systems and resources. We will need to continue to improve our financial and managerial controls, reporting systems and procedures, and will need to continue to train and manage our work force. Following our substantial reduction in headcount in February 2020, the risks associated with strained resources are heightened.

If we fail to adequately reduce and control our manufacturing, supply chain and operating costs, our business, financial condition, and operating results could be adversely affected.

We incur significant costs related to procuring components and increasing our production capabilities to manufacture our products. We may experience delays, cost overruns or other unexpected costs associated with an increase in production. If we are unsuccessful in our efforts to reduce and control our manufacturing, supply chain and operating costs and keep costs aligned with the levels of revenues we generate, our business and financial condition could suffer.

Our technology and products incorporating our PicoP® scanning technology may be subject to future environmental, health and safety regulations that could increase our development and production costs.

Our technology and products incorporating our PicoP® scanning technology could become subject to future environmental, health and safety regulations or amendments that could negatively impact our ability to commercialize our technology and products incorporating our PicoP® scanning technology. Compliance with any such new regulations would likely increase the cost to develop and produce products incorporating our PicoP® scanning technology, and violations may result in fines, penalties or suspension of production. If we become subject to any environmental, health, or safety laws or regulations that require us to cease or significantly change our operations to comply, our business, financial condition and operating results could be adversely affected.

Our operating results may be adversely impacted by worldwide political and economic uncertainties and specific conditions in the markets we address.

In the recent past, general worldwide economic conditions have experienced a downturn due to slower economic activity, concerns about inflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, and adverse business conditions. Any continuation or worsening of the current global economic and financial conditions could materially adversely affect: (i) our ability to raise, or the cost of, needed capital, (ii) demand for our current and future products, and (iii) our ability to commercialize products. Additionally, infectious diseases including COVID-19 may cause an unexpected downturn in economic conditions. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent economic recovery, worldwide, regionally or in the display industry.

Because we plan to continue using foreign contract manufacturers, our operating results could be harmed by economic, political, regulatory and other factors in foreign countries.

We currently use foreign contract manufacturers and plan to continue to use foreign contract manufacturers to manufacture current and future products, where appropriate. These international operations are subject to inherent risks, which may adversely affect us, including, but not limited to:

- Political and economic instability;
- High levels of inflation, historically the case in a number of countries in Asia;
- Burdens and costs of compliance with a variety of foreign laws, regulations and sanctions;
- Foreign taxes and duties;
- Changes in tariff rates or other trade, tax or monetary policies; and
- Changes or volatility in currency exchange rates and interest rates.

Our contract manufacturers' facilities could be damaged or disrupted by a natural disaster or labor strike, either of which would materially affect our financial position, results of operations and cash flows.

A major catastrophe, such as an earthquake, monsoon, flood, infectious disease including the COVID-19 virus, or other natural disaster, labor strike, or work stoppage at our contract manufacturers' facilities, our suppliers, or our customers, could result in a prolonged interruption of our business. A disruption resulting from any one of these events could cause significant delays in product shipments and the loss of sales and customers, which could have a material adverse effect on our financial condition, results of operations, and cash flows.

If we are unable to obtain effective intellectual property protection for our products, processes and technology, we may be unable to compete with other companies.

Intellectual property protection for our products, processes and technology is important and uncertain. If we do not obtain effective intellectual property protection for our products, processes and technology, we may be subject to increased competition. Our commercial success will depend, in part, on our ability to maintain the proprietary nature of our PicoP® scanning technology and other key technologies by securing valid and enforceable patents and effectively maintaining unpatented technology as trade secrets.

We protect our proprietary PicoP® scanning technology by seeking to obtain United States and foreign patents in our name, or licenses to third party patents, related to proprietary technology, inventions, and improvements that may be important to the development of our business. However, our patent position involves complex legal and factual questions. The standards that the United States Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and can change.

Additionally, the scope of patents is subject to interpretation by courts and their validity can be subject to challenges and defenses, including challenges and defenses based on the existence of prior art. Consequently, we cannot be certain as to the extent to which we will be able to obtain patents for our new products and technology or the extent to which the patents that we already own, protect our products and technology. Reduction in scope of protection or invalidation of our licensed or owned patents, or our inability to obtain new patents, may enable other companies to develop products that compete directly with ours on the basis of the same or similar technology.

We also rely on the law of trade secrets to protect unpatented know-how and technology to maintain our competitive position. We try to protect this know-how and technology by limiting access to the trade secrets to those of our employees, contractors and partners, with a need-to-know such information and by entering into confidentiality agreements with parties that have access to it, such as our employees, consultants and business partners. Any of these parties could breach the agreements and disclose our trade secrets or confidential information, or our competitors might learn of the information in some other way. If any trade secret not protected by a patent were to be disclosed to or independently developed by a competitor, our competitive position could be negatively affected.

We could be subject to significant product liability claims that could be time-consuming and costly, divert management attention and adversely affect our ability to obtain and maintain insurance coverage.

We could be subject to product liability claims if any of the product applications are alleged to be defective or cause harmful effects. For example, because some of the scanning modules incorporating our PicoP® scanning technology could scan a low power beam of colored light into the user's eye, the testing, manufacture, marketing and sale of these products involve an inherent risk that product liability claims will be asserted against us.

Additionally, any misuse of our technology or products incorporating our PicoP® scanning technology by end users or third parties that obtain access to our technology, could result in negative publicity and could harm our brand and reputation. Product liability claims or other claims related to our products or our technology, regardless of their outcome, could require us to spend significant time and money in litigation, divert management time and attention, require us to pay significant damages, harm our reputation or hinder acceptance of our products. Any successful product liability claim may prevent us from obtaining adequate product liability insurance in the future on commercially desirable or reasonable terms. An inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of our products and our PicoP® scanning technology.

Our contracts and collaborative research and development agreements have long sales cycles, which makes it difficult to plan our expenses and forecast our revenues.

Our contracts and collaborative research and development agreements have long sales cycles that involve numerous steps including determining the product application, exploring the technical feasibility of a proposed product, evaluating the costs of manufacturing a product or qualifying a new or alternative contract manufacturer for production. Typically, these contracts and agreements involve several face-to-face meetings before they conclude. Infectious diseases including COVID-19 may delay face-to-face meetings and closing contracts and agreements. Our long sales cycle, which can last several years, makes it difficult to predict the quarter in which revenue recognition will occur. Delays in entering into contracts and collaborative research and development agreements could cause significant variability in our revenues and operating results for any particular period.

Our contracts and collaborative research and development agreements may not lead to any product or any products that will be profitable.

Our contracts and collaborative research and development agreements, including without limitation, those discussed in this document, are exploratory in nature and are intended to develop new types of products for new applications. Our efforts may prove unsuccessful and these relationships may not result in the development of any product or any products that will be profitable.

Our operations could be adversely impacted by information technology system failures, network disruptions, or cyber security breaches.

We rely on information technology systems to process, transmit, store, and protect electronic data between our employees, our customers and our suppliers. Our systems are vulnerable to damage or interruptions due to events beyond our control, including, but are not limited to, natural disasters, power loss, telecommunications failures, computer viruses, hacking, or other cyber security issues. Our system redundancy may be inadequate, and our disaster recovery planning may be ineffective or insufficient to account for all eventualities. Additionally, we maintain insurance coverage to address certain aspects of cyber risks. Such insurance coverage may be insufficient to cover all losses, or all claims that may arise, should such an event occur.

Loss of any of our key personnel could have a negative effect on the operation of our business.

Our success depends on our executive officers and other key personnel and on the ability to attract and retain qualified new personnel. Achievement of our business objectives will require substantial additional expertise in the areas of sales and marketing, research and product development and manufacturing. Competition for qualified personnel in these fields is intense, and the inability to attract and retain additional highly skilled personnel, or the loss of key personnel, could hinder our ability to compete effectively in the LBS markets and adversely affect our business strategy execution and results of operations.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation.
31.1	Principal Executive Officer Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18, United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18, United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	MICROVISION, INC.
Date: October 29, 2020	By: /s/ Sumit Sharma
	Sumit Sharma
	Chief Executive Officer and Director (Principal Executive Officer)
Date: October 29, 2020	By: /s/ Stephen P. Holt
	Stephen P. Holt
	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 3.1

CERTIFICATE OF AMENDMENT
OF
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
MICROVISION, INC.

(Pursuant to Section 242 of the
General Corporation Law of the State of Delaware)

MicroVision, Inc., a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware (the "General Corporation Law"), hereby certifies as follows:

1. That the Board of Directors duly adopted resolutions approving the amendment of the Certificate of Incorporation of this corporation to increase the total authorized shares of this corporation to 235,000,000 shares consisting of 210,000,000 shares of common stock, $.001 par value, and 25,000,000 shares of preferred stock, $.001 par value, and declaring said amendment to be advisable, submitted to and considered by the stockholders of this corporation entitled to vote thereon.

2. That upon the effectiveness of the amendment, the Certificate of Incorporation is hereby amended such that the first paragraph of Article IV of this corporation's Certificate of Incorporation will read in its entirety as follows:

"The total number of shares of capital stock which this corporation shall have the authority to issue is two hundred thirty five million (235,000,000) shares, consisting of (i) two hundred ten million (210,000,000) shares of common stock, $.001 par value ("Common Stock") and (ii) twenty-five million (25,000,000) shares of preferred stock, $.001 par value ("Preferred Stock")."

3. That the foregoing amendment was approved by the holders of the requisite number of shares of this corporation in accordance with the Certificate of Amendment and Section 242 of the General Corporation Law.

4. That this Certificate of Amendment of Amended and Restated Certificate of Incorporation, which amends the provisions of this corporation's Certificate of Incorporation, has been duly adopted in accordance with Section 242 of the General Corporation Law.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Certificate of Amendment of Amended and Restated Certificate of Incorporation has been executed by a duly authorized officer of this corporation on this 8th day of October, 2020.

By:	/s/ David J. Westgor
Name:	David J. Westgor
Title:	Secretary

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sumit Sharma, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2020 of MicroVision, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/s/ Sumit Sharma

Sumit Sharma
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen P. Holt, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2020 of MicroVision, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/s/ Stephen P. Holt

Stephen P. Holt
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of MicroVision, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

1) the Company's Form 10-Q for the quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the quarter ended September 30, 2020 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 29, 2020	/s/ Sumit Sharma
	Sumit Sharma *Chief Executive Officer*

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Financial Officer of MicroVision, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

1) the Company's Form 10-Q for the quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the quarter ended September 30, 2020 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 29, 2020

/s/ Stephen P. Holt

Stephen P. Holt
Chief Financial Officer